

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 DODE-00 PA-03 USIA-15 PRS-01 IO-13 RSR-01

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FM AMEMBASSY SEOUL

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E.O. 11652: N/A

TAGS: EFIN, IMF, KS

SUBJECT: KOREA ANNOUNCES HIGHER CREDIT TARGETS UNDER IMF
STANDBY AGREEMENT.

REF: A. SEOUL 2956 B. CERP

SUMMARY: AS RESULT OF EXCEEDING DOMESTIC CREDIT CEILING
FOR FIRST HALF, ROKG HAS ANNOUNCED REVISED MONETARY PLAN
WHEREBY CREDIT WILL EXPAND 26.2 PER CENT FOR ENTIRE YEAR,
COMPARED ORIGINAL CEILING OF 23.9 PERCENT UNDER STANDBY.
HOWEVER, REVISED CREDIT INCREASE OF 11.2 PERCENT FOR
SECOND HALF IS BELOW BOTH ORIGINAL FORECAST AND ACTUAL 15.0
PERCENT INCREASE IN FIRST HALF. WHILE ROKG WILL FOLLOW POLICY
OF MONETARY RESTRAINT, REVISED TARGETS APPEAR OPTIMISTIC
IN LIGHT OF INVESTMENT BOOM AND OTHER FACTORS. IMF HAS
NOT GIVEN OFFICIAL REACTION BUT REPORTEDLY CONCERNED RE
OVERHEATING DANGERS. END SUMMARY

1. FINAL DOMESTIC CREDIT DATA FOR FIRST SIX MONTHS
INDICATE INCREASE OF 228.8 BILLION WON, OR 15.0 PERCENT,
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COMPARED TO STANDBY CEILING INCREASE OF 181.7 BILLION

WON, OR 11.9 PERCENT. CREDIT TO GOVERNMENT SECTOR INCREASED SUBSTANTIALLY BUT BY 29.1 BILLION WON LESS THAN SUB-CEILING LIMIT, MAINLY DUE TO HIGHER TAX REVENUES. CREDIT TO PRIVATE SECTOR INCREASED BY 76.2 BILLION WON MORE THAN SUB-CEILING, MAINLY DUE TO CREDITS FOR EXPORT PRODUCTION. PARTLY DUE TO \$155 MILLION INCREASE IN NET FOREIGN ASSETS, MONEY SUPPLY EXPANDED BY 16.6 PERCENT, COMPARED TO ORIGINAL ESTIMATE OF 20 PERCENT FOR ENTIRE YEAR. TIME AND SAVINGS DEPOSITS ROSE BY 16.1 PERCENT, COMPARED TO ANNUAL TARGET OF 27.4 PERCENT.

2. THESE RESULTS LARGELY REFLECT HIGHER-THAN EXPECTED ECONOMIC ACTIVITY, PARTICULARLY IN TRADE AND INVESTMENT. CNP IS NOW EXPECTED TO RISE 12-15 PERCENT IN REAL TERMS, OR 20-24 PERCENT IN CURRENT PRICES, COMPARED TO ORIGINAL ESTIMATES OF 9.5 AND 14.9 PERCENT. AGREEMENT WITH IMF FURTHER ASSUMED SLOW PACE IN FIRST HALF, WITH PRIVATE SECTOR CREDITS (INCLUDING FERTILIZER) IN FIRST-HALF ACCOUNTING FOR ONLY 35 PERCENT OF PERMITTED TOTAL 1973 INCREASE. IN FACT FIRST HALF PACE WAS BRISK AND PRIVATE CREDITS EXPANDED BY 58 PERCENT OF ENVISAGED FULL-YEAR INCREASE.

3. IN LIGHT THIS SITUATION MINISTRY OF FINANCE HAS DRAWN UP NEW PLAN FOR SECOND HALF CALLING FOR PRIVATE SECTOR CREDIT TO INCREASE AT APPROXIMATELY FIRST HALF RATE AND FOR CREDIT TO GOVERNMENT TO BE FURTHER REDUCED BELOW ORIGINAL SUB-CEILINGS. NET RESULT IS THAT DOMESTIC CREDIT INCREASE IN SECOND HALF WOULD BE 11.2 PERCENT (OVER END 1972 LEVEL) COMPARED TO 12.0 PERCENT IN ORIGINAL PLAN. FOLLOWING ARE ORIGINAL AND REVISED TARGETS FOR TOTAL CREDIT INCREASES DURING 1973, IN BILLION WON:

ORIGINAL REVISED

GOVERNMENT (ALL BANK CREDIT	39.1	20.0
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PRIVATE (AND FERTILIZERU)	324.6	378.5
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TOTAL INCREASE	363.7	398.5
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PERCENT INCREASE	23.9	26.2
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4. GOVERNMENT HAS ALSO ANNOUNCED SOMEWHAT HIGHER ESTIMATES FOR TOTAL EXPANSION IN MONEY SUPPLY AND TIME AND SAVINGS DEPOSITS DURING YEAR. THESE ALSO ASSUME CONSIDERABLY SLOWER RATES OF INCREASE IN SECOND HALF AS COMPARED TO ACTUAL FIRST HALF. GROWTH IN MONEY SUPPLY IN PARTICULAR IS

EXPECTED TO BE HELD DOWN BY FORECAST DECREASES IN NET FOREIGN ASSETS AND GOVERNMENT BORROWING, TOGETHER WITH CONTINUED MONETARY RESTRAINT IN FORM HIGH RESERVE REQUIREMENTS AND ACTIVE SALE OF STABILIZATION CERTIFICATES AND BONDS TO BANKS AND PRIVATE SECTOR.

5. IMF RES REP HAS FORWARDED REVISED ESTIMATES TO WASHINGTON. IN HIS OPINION NEW TARGETS WILL BE EXCEEDED DUE TO INVESTMENT AND TRADE BOOMS. HE REPORTS THAT FUND OFFICIALS HAVE IN RECENT MONTHS EXPRESSED CONCERN TO HIM RE SIGNS OF OVERHEATING. STANDBY PROVIDES ONLY FOR CONSULTATIONS WHEN CEILINGS EXCEEDED; THESE HAVE BEEN SATISFIED SO FAR BY CONTACTS WITH RES REP AND PROSPECTIVE TALKS AT NAIROBI FUND MEETING. MINISTER OF FINANCE HAS PRIVATELY INDICATED TO US THAT THIS MAY BE LAST STANDBY, DUE TO IMPROVED SITUATION RE FOREIGN EXCHANGE, DEBT AND INFLATION. IN RECENT STATEMENTS DEPUTY PRIME MINISTER AND FINANCE MINISTER HAVE ACKNOWLEDGED NEED FOR MONETARY RESTRAINT WHILE DENYING (IN PRO FORMA FASHION) THAT ECONOMY IS OVERHEATING.

6. COMMENT: SINCE DEMAND FOR CREDIT WILL REMAIN VERY STRONG DURING SECOND HALF, QUESTION OF BALANCE BETWEEN STABILIZATION AND EXPANSION OBJECTIVES WILL REMAIN ACUTE, WITH EXPANSION FAVORED TO WIN IN ANY CRUNCH. MINISTRY OF FINANCE SEEMS DETERMINED TO RESTRAIN CREDIT INSOFAR AS POSSIBLE BUT CONCEEDS THAT PRIVATE DEMAND IS STRONG AND THAT NEED FOR GOVERNMENT CREDIT WILL DEPEND UPON SECOND HALF OPERATIONS OF GRAIN MANAGEMENT FUND AND PL 480 ARRIVALS, BOTH OF WHICH ARE DIFFICULT TO PREDICT AT THIS TIME.

DECLAS AUG 20, 1975.

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